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SUBJECT: Pearl River Delta Flotsam and Jetsam, November 19, 2007

11. (U) SUMMARY: This is the third in a series of periodic cables that will feature snapshots of the Guangzhou consular district. Highlights of this installment include: advanced television flat-panel manufacturing; a HIV/AIDS treatment facility; enforcement of air pollution laws; and PRD labor trends.

TCL to Build Advanced Flat-Panel Factory

12. (SBU) TCL Multimedia Technology Holdings Ltd. will soon build China's most advanced TFT-LCD panel manufacturing facility in Guangdong, according to TCL Vice President Morgan Chen. There are already 6th generation fabs (fabricating facilities) in China (producing 1500mm x 1850mm glass substrates), but TCL plans to build a 7.5 generation one (1950mm x 2250mm) or 8th generation (2160mm x 2460mm) facility. Chen indicated that the firm would be seeking assistance from foreign partners and possibly from the Chinese government in financing the capital-intensive project. He estimated the new facility would take approximately 18 months to build. Flat-panel sets currently account for 30 percent of the firm's television sales, but it has no panel manufacturing facilities of its own. TCL purchases all of its panels from overseas suppliers, mainly in Taiwan and Korea, and assembles them into televisions sets in its factories in China. TCL is one of the world's largest television manufacturers, claiming 9.2 percent of the global market.

New HIV/AIDS Center - Largest District CDC Facility

13. (U) Downtown Guangzhou's Yuexiu District opened a new CDC HIV/AIDS services facility, the largest district-level CDC facility in China. The center, which began operations October 16, will provide HIV/AIDS consultation services, free HIV testing, and a methadone treatment center. AIDS Care China, a leading HIV/AIDS NGO in Guangzhou, provided training for the center's staff. Guangdong province ranks fifth in China for HIV/AIDS cases, with an estimated total of 17,505 carriers in 2006. Some experts believe these figures dramatically understate the total number of cases, which could be as high 40,000.

Foshan and Shenzhen Try to Clear the Air

14. (U) South China's Regional Air Quality Management Network, a cooperative entity formed by Guangdong and Hong Kong environmental agencies, ranked Foshan as the "dirtiest" city for air quality in the Pearl River Delta. Much of Foshan's air pollution has been blamed on the ceramics industry, which is heavily concentrated

there. In an effort to clean up its act, Foshan's Environmental Protection Bureau compiled a list of ceramics factories for closure or relocation to special zones where factories can be grouped together and more closely supervised. Facing the threat of restrictions imposed by the central government, the Foshan municipal government has set a goal of reducing sulfur dioxide emissions by 43 percent by 2010.

15. (U) Shenzhen has also taken some innovative steps to improve air quality. The Shenzhen Environmental Protection Bureau (EPB) recently submitted to local banks a list of 114 companies that have violated air pollution regulations. Banks have been instructed to stop distributing loans to the violators. Media reports indicate that the move will result in the suspension of RMB 110 million (nearly US\$15 million) in loans.

Foxconn Will Move Production Out of PRD

16. (SBU) Foxconn, China's largest exporter, will reduce staffing at its massive Shenzhen campus; operations there will be focused on research and development, design, product testing, marketing, and other non-production processes. A Foxconn human resources executive told econoff that the firm would reduce employment at the site from its current level of approximately 270,000 employees down to about 200,000 (a year ago at this time, Foxconn was planning to build the workforce level up to 300,000). He said rising wages in the Shenzhen were an important factor in the decision to move out production processes but not the only one. Production will move to various other sites in China depending on advantages offered by different locations. For example, production for the Japanese and Korean markets will be moved to facilities in Shandong Province,

GUANGZHOU 00001231 002 OF 002

closer to those markets. Manufacturing of products that require large amounts magnesium or iron will move closer to production centers of those inputs in Shanxi and Wuhan, respectively. Foxconn, which is a subsidiary of Taiwan's Hon Hai Precision Industries, makes electronic components and a wide variety of consumer electronic goods (as OEM) under contract for other companies, including Apple, Microsoft, Motorola, Nintendo, Nokia and Sony.

Revolving Door at Shenzhen Factories

17. (U) Shenzhen firms have much higher turnover rates than companies in other "first-tier" Chinese cities, according to the latest survey by Hewitt Associates LLC, a human resources consulting firm. The survey of Beijing, Guangzhou, Shanghai and Shenzhen showed that voluntary labor turnover rates in Shenzhen were 17.4 percent for non-manufacturing firms and 31.3 percent for manufacturing firms. Guangzhou had the second highest rates in the survey at 15.5 percent for non-manufacturing firms and 14.8 percent for manufacturing. One of the Hewitt Associates who presented the survey results at an American Chamber of Commerce of South China briefing told econoff that a 2006 survey had indicated that turnover exceeded 50 percent for unskilled workers in Shenzhen manufacturing firms. The Hewitt Associate explained that turnover rates in Shenzhen were particularly high because high-tech industries, which are concentrated in the area, experience higher turnover rates overall.

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